

CITY OF DURHAM, NORTH CAROLINA
Management's Discussion and Analysis
For the Year Ended June 30, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Durham's financial performance provides an overview of the City's financial activities for the year ended June 30, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, and the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the Fiscal Year 2003 are as follows:

- The City of Durham has maintained its AAA bond rating from all three bond rating agencies.
- In fiscal year 2003 the City completed its development agreement to redevelop the American Tobacco complex. The complex, which will be the largest preservation project in the history of North Carolina, is a joint public/private venture between the City of Durham, Durham County and the developer. The City's total investment will be more than \$23 million and other investments in the project should bring the total to over \$175 million.
- In fiscal year 2003 the City received federal transit grants of approximately \$9,500,000. This grant along with state and city matching funds of approximately \$938,000 went to the city purchased 32 new buses for the Durham Area Transit Authority (DATA).
- The assets of the City of Durham exceeded its liabilities at the close of the most recent fiscal year by \$257,267,554. Of this amount, \$89,564,559 may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets increased by \$32,241,557 during the most recent fiscal year resulting from governmental and business-type activities. This increase is due to increases in property and sales taxes collected and additional revenues in charges for streets and highway services, all in governmental activities.
- As of the close of the fiscal year, the City of Durham's governmental funds reported combined ending fund balances of \$67,396,271, a decrease of \$7,506,933 in comparison with the prior year. The bulk of this decrease was due to the use of fund balance in the Transit Investment Fund for new bus purchases and transfers to the Transit Fund for operating purposes.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$13,258,759, or 10.00% of total general fund expenditures.
- The City of Durham's total debt decreased by \$27,326,990 (6.75%) during the current fiscal year. The primary component of this decrease was the retirement of \$16,680,003 in general obligation public improvement bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Durham's basic financial statements. The City of Durham's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). This report also contains other supplementary information that will enhance the reader's understanding of the financial condition of the City of Durham.

Required Components of the Annual Financial Report

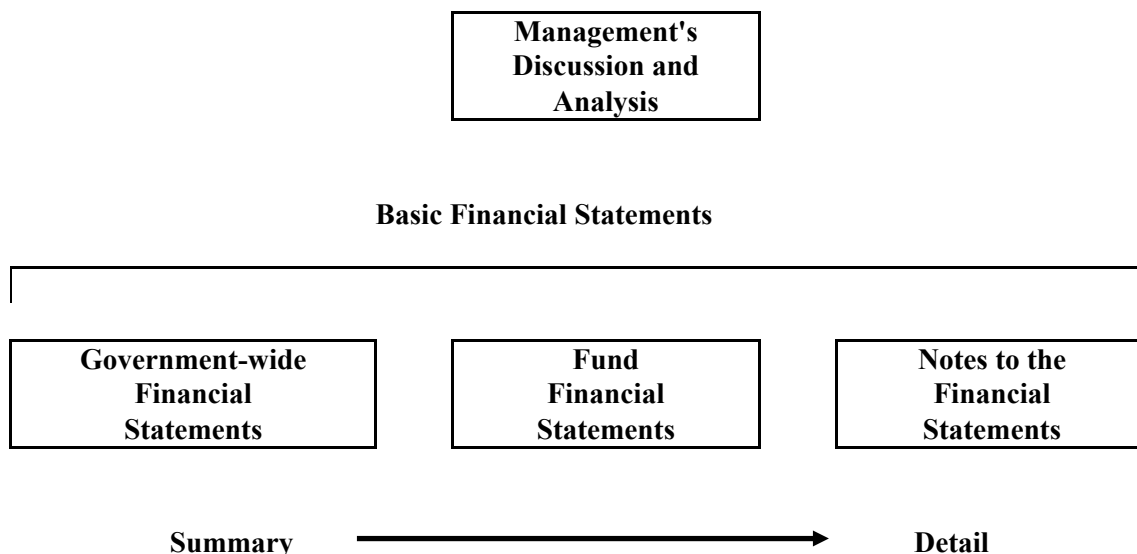


Figure 1

Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the City's financial status.

The next statements (Exhibits 3 through 12) are Fund Financial Statements. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Durham's finances in a manner similar to a private-sector business. The statement of net assets presents information on all of the City of Durham's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Durham is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are

reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Durham that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities). The governmental activities of the City of Durham include general government, public safety, streets, planning, inspections, recreation and parks. The business type activities of the City of Durham include water and sewer, parking facilities, transit, solid waste management, civic center, ballpark and storm water management.

The government-wide financial statements include not only the City of Durham itself, but also two legally separate non-profit corporations for which the City of Durham is financially accountable. The Durham Risk Management Corporation (DRM) is a nonprofit corporation duly incorporated in the State, and validly existing and in good standing under the North Carolina Nonprofit Corporation Act, Chapter 55A of the General Statutes of North Carolina. Although legally separate from the City, DRM is reported as if it were part of the government because its sole purpose is to assist the City in carrying out its municipal and governmental functions through the provision of risk management and the administration of claims and is not engaged in any other activity and has no taxing power. All DRM activities are included in the Risk Retention Fund, which is an Internal Service Fund.

The New Durham Corporation (NDC) is legally separate from the City, although the NDC is reported as if it were a part of the government because its purpose is to finance City revitalization projects and purchases of capital equipment. All NDC activities are included in the funds in which the activity takes place.

The government-wide financial statements can be found on pages 16-19 of this report.

Fund Financial Statements

The fund financial statements are a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Durham, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Durham can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Durham adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City

complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted; 2) the final budget as amended; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement. The basic governmental fund financial statements can be found on pages 20-25.

Proprietary Funds - The City of Durham has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. These services include water and sewer, parking facilities, transit, solid waste, civic center, ballpark and storm water management. They are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are used as an accounting device to accumulate and allocate costs internally among other funds. The City uses an internal service fund to account for risk management and claims settlement activities. The Risk Retention Fund, because its operation benefits predominantly governmental rather than business-type activities, has been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds The City's only *Fiduciary Fund*, a pension trust, is used to account for resources held for the benefit of the City's employees. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 45-71.

Other Information

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Durham's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 72 & 73.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements for the fiscal year ended June 30, 2003 are the second year of a new era in financial reporting for the City of Durham, and many other units of government across the United States. Prior to last year, the City maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in. Given the fact that this is the second year of reporting there will now be enough information for comparison analysis.

The changes in the financial statement reporting model were mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Durham's comprehensive annual financial report as well as those of many other units of government.

Statement of Net Assets
(in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|-------------------|-----------------------------|-------------------|-------------------|-------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Current and other assets | \$ 131,766 | \$ 144,749 | \$ 101,470 | \$ 106,506 | \$ 233,236 | \$ 251,255 |
| Capital assets | 165,466 | 146,893 | 389,348 | 283,224 | 554,814 | 430,116 |
| Total assets | <u>297,232</u> | <u>291,642</u> | <u>490,818</u> | <u>389,730</u> | <u>788,050</u> | <u>681,372</u> |
| Long-term liabilities outstanding | 138,216 | 157,317 | 223,634 | 236,627 | 361,850 | 393,944 |
| Other liabilities | 35,361 | 32,464 | 32,807 | 30,240 | 68,168 | 62,704 |
| Total liabilities | <u>173,577</u> | <u>189,781</u> | <u>256,441</u> | <u>266,867</u> | <u>430,018</u> | <u>456,648</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 33,383 | 4,970 | 65,450 | 47,575 | 98,833 | 52,544 |
| Restricted | 53,048 | 41,429 | 15,822 | 17,314 | 68,870 | 58,743 |
| Unrestricted | 37,224 | 55,462 | 52,038 | 57,974 | 89,262 | 113,436 |
| Total net assets | <u>\$ 123,655</u> | <u>\$ 101,861</u> | <u>\$ 234,377</u> | <u>\$ 122,863</u> | <u>\$ 358,032</u> | <u>\$ 224,724</u> |

For more detailed information see the Statement of Net Assets on page 16.

Net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City exceeded liabilities by \$256,965,336 at June 30, 2003. For the period ending June 30, 2002 the amount was \$224,723,779. Net assets are reported in three categories: Invested in capital assets, net of related debt of \$98,833,159 restricted net assets of \$68,869,836 and unrestricted net assets \$89,262,341. At June 30, 2002 these amounts were \$52,544,447, \$58,743,026 and \$113,436,306 respectively.

The invested in capital assets, net of related debt category is defined as the City's investment in City owned capital assets (e.g. land, buildings, automotive equipment, office and other equipment, and sewer lines), less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

The following is a schedule of revenues and expenses for the current fiscal year.

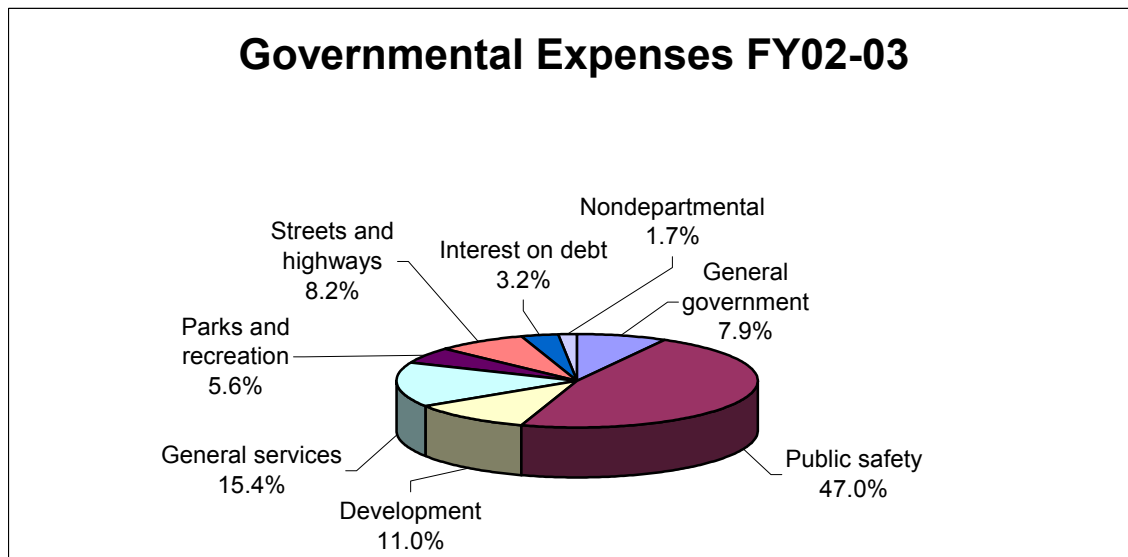
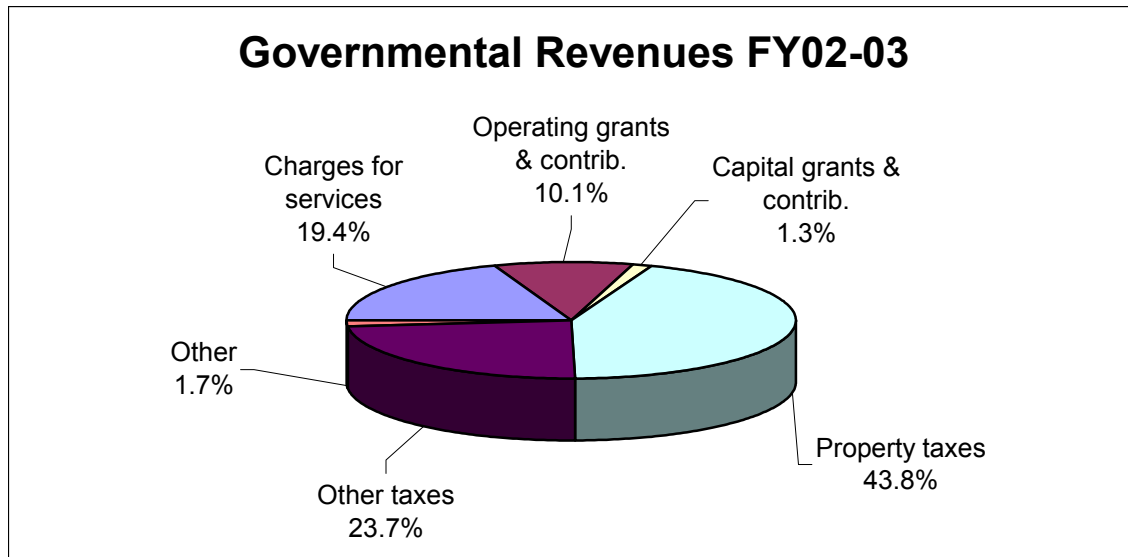
Changes in Net Assets
(in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|-------------------|-----------------------------|-------------------|-------------------|-------------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 33,936 | \$ 18,751 | \$ 60,757 | \$ 71,978 | \$ 94,693 | \$ 90,729 |
| Operating grants and contributions | 17,738 | 9,147 | 2,894 | 428 | 20,632 | 9,574 |
| Capital grants and contributions | 2,228 | 3,979 | 10,483 | 126 | 12,711 | 4,106 |
| General revenues: | | | | | - | - |
| Property taxes | 76,826 | 73,897 | 1,214 | 1,091 | 78,040 | 74,988 |
| Other taxes | 41,566 | 30,313 | - | - | 41,566 | 30,313 |
| Grants and contributions not restricted to specific programs | - | 5,864 | - | - | - | 5,864 |
| Other | 2,976 | 5,181 | - | - | 2,976 | 5,181 |
| Total revenues | <u>175,268</u> | <u>147,131</u> | <u>75,348</u> | <u>73,623</u> | <u>250,617</u> | <u>220,755</u> |
| Expenses: | | | | | | |
| General government | 11,200 | 12,563 | - | - | 11,200 | 12,563 |
| Public safety | 66,293 | 59,362 | - | - | 66,293 | 59,362 |
| Development | 15,542 | 13,695 | - | - | 15,542 | 13,695 |
| General services | 21,754 | 22,569 | - | - | 21,754 | 22,569 |
| Parks and recreation | 7,918 | 8,333 | - | - | 7,918 | 8,333 |
| Streets and highways | 11,526 | 10,818 | - | - | 11,526 | 10,818 |
| Interest on long-term debt | 4,514 | 8,008 | - | - | 4,514 | 8,008 |
| Nondepartmental | 2,415 | 2,002 | - | - | 2,415 | 2,002 |
| Water and sewer | - | - | 45,497 | 44,126 | 45,497 | 44,126 |
| Parking facilities | - | - | 1,636 | 1,994 | 1,636 | 1,994 |
| Transit | - | - | 13,002 | 11,648 | 13,002 | 11,648 |
| Solid waste disposal | - | - | 8,414 | 9,843 | 8,414 | 9,843 |
| Civic center | - | - | 1,643 | 1,737 | 1,643 | 1,737 |
| Ballpark | - | - | 1,871 | 2,047 | 1,871 | 2,047 |
| Storm water management | - | - | 5,151 | 4,810 | 5,151 | 4,810 |
| Total expenses | <u>141,162</u> | <u>137,350</u> | <u>77,213</u> | <u>76,203</u> | <u>218,375</u> | <u>213,553</u> |
| Increase in net assets before transfers | 34,106 | 9,781 | (1,865) | (2,580) | 32,242 | 7,201 |
| Transfers | (12,313) | (8,560) | 12,313 | 8,560 | - | - |
| Increase in net assets | 21,794 | 1,222 | 10,448 | 5,980 | 32,242 | 7,201 |
| Net assets, July 1 | <u>101,861</u> | <u>100,639</u> | <u>122,863</u> | <u>116,883</u> | <u>224,724</u> | <u>217,523</u> |
| Net assets, June 30 | <u>\$ 123,655</u> | <u>\$ 101,861</u> | <u>\$ 133,310</u> | <u>\$ 122,863</u> | <u>\$ 256,965</u> | <u>\$ 224,724</u> |

Governmental Activities

Governmental activities increased the city's net assets by \$21,793,946, this accounted for approximately 68% of the total growth of net assets.

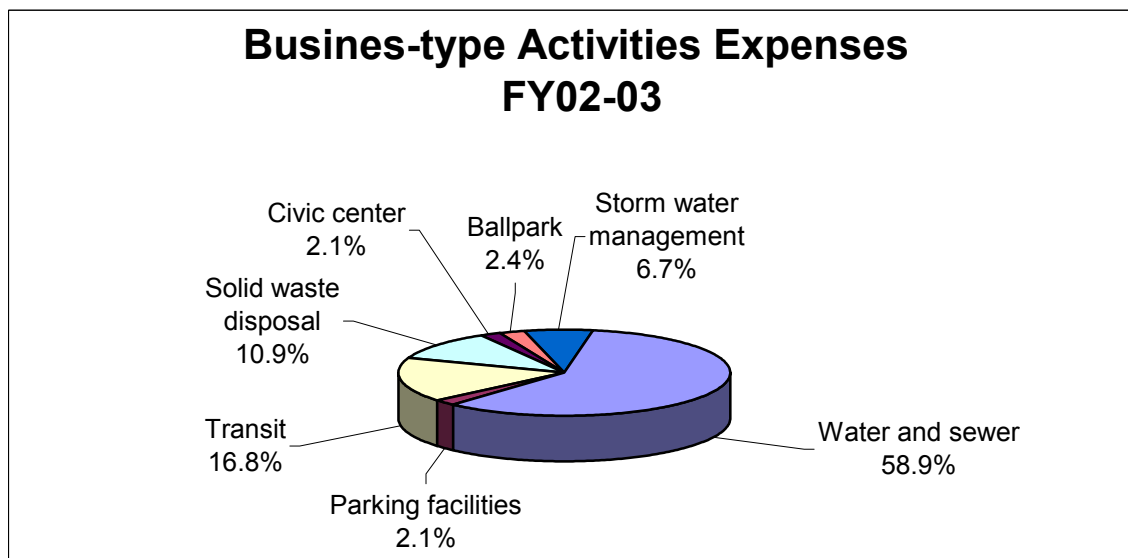
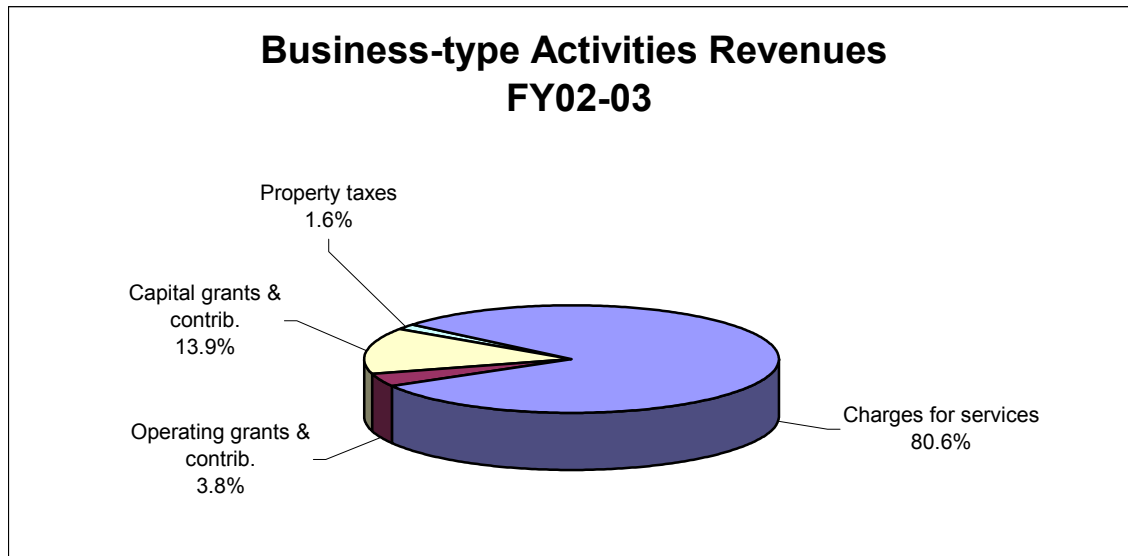
Tax revenues (\$118,391,348) collected were approximately 7% more than taxes collected (\$110,073,414) in the prior fiscal year. Tax revenues covered approximately 84% of governmental activity expenses (\$141,162,008). Program revenues (\$53,901,233) were approximately 31% of all revenues collected. Public safety accounted for approximately 47% of all expenses in governmental activities. The following graphs show the breakdown by percentage of governmental revenues and expenses.



Business-type Activities

The water and sewer activity is the largest of the business type activities, it accounted for almost 59% of the expenses (\$45,496,522) and almost 61% (\$45,041,221) of the revenues. Total business type expenses were \$77,213,281 and total revenues were \$74,134,190.

The following graphs show the breakdown by percentage of business type revenues and expenses.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's general fund had a fund balance of \$24,658,343, of which \$13,258,759 was unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period \$5,067,965
- Restricted cash \$668,435
- Reserved by state statute \$3,797,211
- Designated for subsequent years expenditures, \$734,004
- Other restricted purposes \$22,302

The undesignated fund balance of the general fund decreased by \$282,445 during the current fiscal year. Revenues in the general fund increased by \$10,125,266 to \$142,436,148. Taxes increased by \$6,742,777 to \$107,096,096 and intergovernmental revenues increased by \$2,794,514 to \$15,695,500 from \$12,900,986 after a drop in the previous year of \$4,349,254.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the proprietary funds at the end of the fiscal year amounted to:

- Water and Sewer Utility \$73,606,870
- Parking Facilities \$298,122
- Transit \$3,310,540
- Solid Waste Disposal (\$4,139,176)
- Civic Center (\$6,353,116)
- Ballpark (\$4,062,870)
- Storm Water Management \$4,734,982.

The total growth in net assets for all proprietary funds was \$10,138,393. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Differences between the original budget and the final amended budget were minor (\$1,159,059 increase in appropriations) and can be briefly summarized as follows:

- \$240,069 increase in governance
- \$705,795 increase in public protection
- \$693,774 increase in community service and development
- \$645,849 increase in administrative and support services
- \$1,126,428 decrease in non-assigned

Of this increase, \$1,441,820 was budgeted from available fund balance, \$331,127 was funded from transfers from other funds and \$33,000 was funded out of other revenues. There was a \$364,127 decrease in operating revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2003, totals \$738,950,450, an increase of \$37,944,878 from June 30, 2002, when the amount was

\$700,974,073. These assets include buildings, infrastructure, land, machinery and equipment, park facilities, vehicles, water and sewer lines, and construction in progress.

Major capital asset transactions during the year include the following additions.

Business type activities:

- Construction in progress for sewer capital assets of \$4,039,561.
- Construction in progress for water capital assets of \$1,671,996.

Governmental type activities:

- Construction in progress for street projects \$3,796,703.
- Construction in progress for municipal buildings \$1,923,347.
- Construction in progress for park improvement projects \$1,812,223.

Capital Assets

| In thousands | Governmental | | Business-type | | Total | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Activities | | Activities | | | |
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Land | \$ 24,170 | \$ 22,353 | \$ 36,024 | \$ 36,024 | \$ 60,194 | \$ 58,377 |
| Buildings, equipment and depreciable assets | 183,590 | 161,585 | 462,538 | 450,992 | 646,129 | 612,576 |
| Construction in progress | 16,222 | 14,779 | 16,554 | 15,242 | 32,776 | 30,021 |
| Total | <u>\$ 223,983</u> | <u>\$ 198,716</u> | <u>\$ 515,116</u> | <u>\$ 502,258</u> | <u>\$ 739,099</u> | <u>\$ 700,974</u> |

See Note 3, D beginning on page 56 of this report for more information.

Debt Administration

As of year-end, the City had \$368,937,785 in debt (e.g., bonds, notes) outstanding compared to \$398,227,501 in the prior fiscal year, a 7.36% decrease.

| In thousands | Governmental | | Business-type | | Total | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Activities | | Activities | | | |
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| General obligation bonds | \$ 96,487 | \$ 103,331 | \$ 118,073 | \$ 127,909 | \$ 214,560 | \$ 231,240 |
| Revenue bonds | 5,080 | 5,080 | 46,320 | 48,310 | 51,400 | 53,390 |
| Certificates of Participation | 45,115 | 53,275 | 14,185 | 15,475 | 59,300 | 68,750 |
| Capital leases | 50 | 274 | - | - | 50 | 274 |
| State of North Carolina | 59 | 59 | 11,490 | 12,375 | 11,549 | 12,434 |
| Durham County | - | - | 32,078 | 32,139 | 32,078 | 32,139 |
| Total | <u>\$ 146,791</u> | <u>\$ 162,019</u> | <u>\$ 222,147</u> | <u>\$ 236,209</u> | <u>\$ 368,938</u> | <u>\$ 398,228</u> |

The City issued the following debt for the fiscal year end June 30, 2003:

General Obligation Bonds Issuance

On June 3, 2003 the City of Durham issued General Obligation Refunding Bonds, Series 2003 dated June 1, 2003, in the amount of \$45,490,000. The bonds were issued to the provisions of the Local Government Bond Act, as amended, Article 7, as amended, of Chapter 159 of the General Statutes of North Carolina, five orders duly adopted by the City Council, and a resolution duly passed by the City Council. The bonds refunded the following issues; the 1992 Public Improvement Bonds, the 1992 Refunding Series, the 1993 Refunding Series, and the 1995 Public Improvement Bonds. The retired bonds were issued to provide funds, together with other available funds, for undertaking housing programs, providing and improving parks and other recreational facilities, constructing and reconstructing streets, improving arts and museum facilities and providing public protection, transit, community development, and water and sewer improvements for the City.

As mentioned in the financial highlights section of this document, the City maintained for the fourth consecutive year, its Aaa bond rating from Moody's Investor Service and AAA rating from Standard and Poor's Corporation and Fitch Ratings. This bond rating is a clear indication of the sound financial condition of the City. The City of Durham maintains this highest financial rating from all three major rating agencies. This achievement is a primary factor in keeping interest costs low on the City's debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City is \$1,148,659,985. The net bonded debt issued, applicable to the bonded debt limit, is \$299,141,079 leaving a remaining debt margin of \$849,918,506. The City also has \$26,772,000 in general obligation bonds authorized but unissued at June 30, 2003.

Additional information regarding the City's long-term debt can be found in Note 3, G beginning on page 60 of this report.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2004

Governmental Activities

Budgeted expenditures in the General Fund are expected to increase 0.2%, the changes primarily are a reduction to various operating and capital costs and an approximately 2.0% increase in personnel costs.

Funding of approximately \$1,000,000 is in the 2004 fiscal year budget to begin the implementation of an Enterprise Resource Planning system (ERP). The ERP will replace Financial, Human Resource, Payroll and Billing systems.

Some of the major budgeted initiatives include Promoting Public Safety, Economic Development and Neighborhood Issues, Fiscal Accountability and Managing Growth.

Capital improvement plans include a new recreation facility (Center North), park improvements including lighted tennis courts and major playground renovations, housing and neighborhood development and downtown revitalization.

Other capital improvements include a new fire station in southwestern area of the city and continued upgrades to public protection radio equipment.

During December 2002, Durham was declared a disaster area by the Federal Emergency Management Assistance (FEMA) because of an ice storm. Total costs of the ice storm through June 30, 2003, were \$7,765,129. Of this amount, we have requested \$3,465,990 and received \$2,956,411. Application for reimbursement of the balance of ice storm costs will be made in fiscal year 2004.

Business-type Activities

The Water and Sewer Fund has appropriated approximately \$2,000,000 to specific capital maintenance needs. Overall revenues are expected to increase 9.2% due to a rate increase. General operating expenses will increase by 2.7% to cover increased costs of material, supplies, and other operating expenses. Personnel costs will increase at an expected rate of 2.3%.

The Solid Waste Disposal Fund revenues are expected to decrease by 6.6%. General operating expenses are not expected to change. Personnel costs are expected to grow 29.4% and debt service is expected to decrease by 19.2%.

The Storm Water Management Fund revenues are expected to increase 5.7%. General operating expenses will increase by 8.8% and personnel costs by 5.6%. There will be a 23.3% increase in non-assigned appropriations to cover indirect administrative charge to the General Fund.

The Transit Fund will see a decrease in revenues and appropriations of 23.0% over fiscal year 2002-03. This is primarily due to a reduction of transfers from other funds.

The Parking Facilities Fund will expect a 4.8% increase in revenues. Personnel services are expected to decrease by 87.0% and operating costs are expected to grow by 430.0%. This is because the management of the parking facilities is being contract out.

USA Baseball, the national governing body of the sport in the United States and a member of the U.S. Olympic Committee, has moved its main operation to the Durham Bulls Athletic Park. The Ballpark Fund expects no significant change from the prior years budget. The ballpark fund continues to receive a transfer from the general fund to pay debt service and to subsidize operating expenses.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, contact the City's Director of Finance on the 4th floor of City Hall, 101 City Hall Plaza, Durham, North Carolina 27701-3329.

DURHAM



CITY OF MEDICINE

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